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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

138

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

C92-2267

For the quarterly period ended March 31, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

PROCESSED BY
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MAY 18 1992

For the transition period from _____ to _____

Commission file number 0-19742

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ADVACARE, INC.
(Exact name of registrant as specified in its charter)

C30

Delaware	04-2902582
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Two Walnut Grove Drive, Horsham, PA 19044
(Address of principal executive offices) (Zip Code)

(215) 674-1800
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changes since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

As of May 11, 1992 there were 11,287,336 shares of Common Stock, par value $.01 per share, outstanding.

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ADVACARE, INC.
BALANCE SHEETS

	September 30,1991	March 31,1992 (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash	$ 801,186	$11,935,762
Accounts receivable billed, net of allowance for doubtful accounts of $877,000 and $670,000	9,904,762	10,873,518
Accounts receivable, unbilled	16,486,775	20,488,747
Prepaid and other current assets	3,757,294	3,949,602
Total current assets	30,950,017	47,247,629
OTHER ASSETS	893,879	987,273
EQUIPMENT AND FIXTURES, less accumulated depreciation and amortization of $3,291,389 and $4,092,008	4,320,269	4,525,471
COMPUTER SOFTWARE, less accumulated amortization of $809,240 and $1,322,263	5,433,704	7,321,633
INTANGIBLE ASSETS, less accumulated amortization of $3,167,808 and $4,532,495	36,268,046	37,304,920
TOTAL ASSETS	$77,865,915	$97,386,926
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term obligations	$ 2,832,118	$ 2,902,897
Notes payable to former subsidiary	2,000,000	
Accounts payable and accrued expenses	10,905,485	10,339,767
Deferred income taxes	333,154	224,406
Total current liabilities	16,070,757	13,467,071
LONG-TERM OBLIGATIONS:		
Bank	13,891,861	
Subordinated	17,359,577	10,000,000
Other	9,790,596	7,758,698
	41,042,034	17,758,698
DEFERRED INCOME TAXES	989,579	989,579
OTHER LONG-TERM LIABILITIES	4,168,266	3,568,266
SERIES E REDEEMABLE STOCK Authorized, issued and outstanding 857,143 shares; $.01 par value. (liquidity preference $6,264,517)	4,193,825	
STOCKHOLDERS' EQUITY:		
Common stock $.01 par value: 20,000,000 shares authorized, issued 7,765,226 and 12,040,050	77,651	120,129
Additional paid-in capital	31,644,331	84,056,906
Accumulated deficit	(18,667,266)	(19,520,460)
Less treasury stock at cost (255,845 and 955,845 common shares)	(1,525,262)	(2,925,262)
Less employee stock purchase loan	(128,000)	(128,000)
Total stockholders' equity	11,401,454	61,603,314
LIABILITIES AND STOCKHOLDERS' EQUITY	$77,865,915	$97,386,926

ADVACARE, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended March 31,		Six months ended March 31,	
	1991	1992	1991	1992
REVENUES	$11,269,508	$18,249,343	$21,649,352	$35,960,022
OPERATING EXPENSES:				
Payroll and fringe benefits	5,916,634	9,991,229	11,714,476	19,824,863
Selling, general and administrative	3,655,697	4,813,735	7,343,395	10,022,153
Depreciation and amortization	737,405	1,137,391	1,468,272	2,213,110
Restructuring charges	17,602,577		17,602,577	
Total	27,912,313	15,942,355	38,128,720	32,060,126
OPERATING INCOME (LOSS)	(16,642,805)	2,306,988	(16,479,368)	3,899,896
INTEREST EXPENSE	609,154	632,928	1,290,755	1,852,824
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(17,251,959)	1,674,060	(17,770,123)	2,047,072
INCOME TAX (BENEFIT) PROVISION	(857,000)	807,000	(883,000)	987,000
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY ITEM	(16,394,959)	867,060	(16,887,123)	1,060,072
DISCONTINUED OPERATIONS, NET	(278,706)	-	(510,598)	-
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	(16,673,665)	867,060	(17,397,721)	1,060,072
EXTRAORDINARY ITEM, NET	-	1,913,266		1,913,266
NET INCOME (LOSS)	(16,673,665)	(1,046,206)	(17,397,721)	(853,194)
PREFERRED DIVIDENDS AND ACCRETION	(58,313)	(1,844,193)	(58,313)	(2,059,587)
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	$(16,731,978)	$(2,890,399)	$(17,456,034)	$(2,912,781)
PRIMARY AND FULLY DILUTED EARNINGS PER COMMON SHARE:				
CONTINUING OPERATIONS	$ (2.36)	$ (.10)	$ (2.49)	$ (.12)
DISCONTINUED OPERATIONS	(.04)		(.08)	
EXTRAORDINARY ITEM		(.20)		(.22)
	$ (2.40)	$ (.30)	(2.57)	(.34)
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	6,959,253	9,707,024	6,804,035	8,618,090

See notes to unaudited financial statements.

ADVACARE, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended March 31,	
	1991	1992
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) for period	$(17,397,721)	$(853,194)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Extraordinary item		3,188,777
Loss from discontinued operations	510,598	
Depreciation and amortization	1,468,272	2,213,110
Deferred income taxes (benefit)	(971,000)	(244,749)
Non-cash charge for warrant extension	145,000	
Non-cash restructuring charges	15,930,650	
Amortization of debt discount	74,191	206,707
Changes in assets and liabilities:		
Accounts receivable	(2,419,870)	(3,965,812)
Prepaid and other current assets	758,740	(1,342,511)
Accounts payable and accrued expenses	(165,271)	(3,385,551)
Net cash provided by (used for) operating activities.....	(2,066,411)	(4,183,223)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cost of acquisitions, net of cash acquired	(2,070,398)	267,293
Capital expenditures, excluding capital leases	(346,770)	(1,020,786)
Development of computer software	(1,790,462)	(2,100,952)
Net cash used for investing activities.....	(4,207,630)	(2,854,445)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common and preferred stock	6,237,496	55,509,950
Borrowings under bank revolving credit facility	13,000,000	-
Repayment of debt due to bank	(10,458,000)	(14,500,000)
Decrease in other debt	(2,100,019)	(15,221,877)
Purchase of treasury stock		(1,400,000)
Retirement of Series E preferred stock		(6,215,829)
Debt issuance costs	(661,779)	-
Net cash provided by (used for) financing activities.....	6,017,698	18,172,244
NET INCREASE (DECREASE) IN CASH	(256,343)	11,134,576
CASH AND EQUIVALENTS, BEGINNING OF PERIOD	477,941	801,186
CASH AND EQUIVALENTS, END OF PERIOD	$ 221,598	$11,935,762

See notes to unaudited financial statements.

ADVACARE, INC.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

Note 1. Financial Statements

The accompanying interim financial statements have been prepared by the Company without audit. These statements include all adjustments which management believes are necessary for a fair presentation of the statements and have been prepared on a consistent basis using the accounting policies described in the Summary of Accounting Policies included in the Prospectus dated January 29, 1992 relating to the Company's initial public offering of Common Stock and filed as part of the Company's Registration Statement on Form S-1 (No. 33-44451) filed on January 29, 1992. These policies and Notes to Financial Statements included in the Prospectus should be read in conjunction with the accompanying interim financial statements. The interim operating results are not necessarily indicative of the operating results expected for the full year.

Note 2. Initial Public Offering

In February 1992, the Company received $56.6 million in proceeds (net of underwriting discounts and commissions) from its initial public offering of 4,200,000 shares of Common Stock. Approximately $38.3 million of such proceeds were used to repay amounts outstanding under the Company's bank credit facility, to retire subordinated debt, to redeem Series E Redeemable Preferred Stock, to repurchase common stock pursuant to a stock option agreement and to pay a note due in connection with the spin-off of a subsidiary (see Note 5). The Company used an additional $2.0 million of such proceeds to repay certain acquisition indebtedness. For additional discussion of the impact of these and other proposed uses of proceeds on the capitalization of the Company, see the sections captioned "Use of Proceeds" and "Capitalization" in the Company's Prospectus dated January 29, 1992 and filed as part of the Company's Registration Statement on Form S-1 (No. 33-44451) filed on January 29, 1992.

Note 3. Repayment of Debt and Series E Redeemable Preferred Stock

The Company used a portion of the proceeds from its initial public offering to repay certain indebtedness. Due to the acceleration of amortization of original issue discount and deferred financing costs associated with indebtedness, there was a one-time non-cash extraordinary reduction in net income in the amount of $1.9 million, net of taxes of $1.3 million. This extraordinary item increased the loss per common share by $.20 and $.22 for the three month and six month periods ended March 31, 1992, respectively.

Income available to common stockholders was reduced by $1.8 million ($.19 and $.21 per share for the three month and six month periods ended March 31, 1992) due to the acceleration of amortization of original issue discount resulting from the early retirement of the Company's Series E Redeemable Preferred Stock.

Note 4. Acquisitions

In March 1992, the Company acquired Mednet, Inc. and two affiliated companies for $1.6 million in cash and $1.1 million in a 7 1/2% note payable semiannually over five years. The companies provide medical reimbursement management services to hospital and office-based physicians in the Southeastern United States. The transaction was accounted for as a purchase and, accordingly, the purchase price was allocated to the assets and liabilities acquired based on their respective estimated fair values at the date of acquisition. The excess $2.0 million of purchase price over the net assets acquired is being amortized on a straight-line basis over 20 to 25 years. Proforma results have not been presented because the acquisition is not material to the results of operations of the Company.

Note 5. Distribution of Common Stock of Subsidiary

In December 1991, the Board of Directors authorized the distribution of the common stock of its wholly owned subsidiary, AdvaCare Network Services, Inc. ("ANS") to the stockholders of the Company. The distribution of this subsidiary, the net assets of which approximated $1.0 million, was recorded as a reduction of additional paid-in capital of the Company. In conjunction with the distribution of ANS, the Company contributed a $2 million note payable to be used for future working capital by the subsidiary.

Note 6. Contingencies

The Company is currently a party to a number of legal proceedings and claims which have arisen in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to any of these actions will not materially affect the financial statements of the Company.

Note 7. Subsequent Event

In April 1992, the Board of Directors approved the advance settlement of the two contingent earn-out agreements remaining from the acquisition of its Physician Division operating units in the Southwest Region of the United States. The consideration in connection with these settlements, which aggregated $3.4 million in cash and 234,282 shares of common stock, will be recorded as additional purchase price of the acquired companies.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The following table shows certain income statement data expressed as a percentage of revenues for the periods indicated:

	Three Months Ended March 31,		Six Months Ended March 31,	
	1991	1992	1991	1992
Revenues	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Payroll and fringe benefits	52.5	54.8	54.1	55.1
Selling, general and administrative	32.4	26.4	33.9	27.9
Depreciation and amortization	6.6	6.2	6.8	6.2
Operating income before restructuring charges	8.5	12.6	5.2	10.8
Restructuring charges	156.2	—	81.3	—
Operating income	(147.7)	12.6	(76.1)	10.8
Interest expense (net)	5.4	3.5	6.0	5.2
Income (loss) from continuing operations before income taxes	(153.1)	9.1	(82.1)	5.6
Income tax (benefit) provision	(7.6)	4.4	(4.1)	2.7
Income (loss) from continuing operations	(145.5)	4.7	(78.0)	2.9
Income (loss) from discontinued operations, net	(2.5)	-	(2.4)	-
Net income (loss) before extraordinary items	(148.0)	4.7	(80.4)	2.9
Extraordinary item, net	—	10.5	—	5.3
Net income (loss)	(148.0)	(5.8)	(80.4)	(2.4)

Three Months Ended March 31, 1992 and March 31, 1991

Revenues increased 61.9% to $18.2 million for the three months ended March 31, 1992 from $11.3 million for the comparable prior period. This increase was due primarily to the inclusion of revenues from three companies acquired during fiscal 1991. Client contract signings remained strong in the second quarter of fiscal 1992 but installations were temporarily delayed due to the need to bring all of the Company's clients into line with recently enacted Medicare physicians payment reform.

Operating income was $2.3 million for the three months ended March 31, 1992 as compared to $960,000 (before restructuring charges of $17.6 million) for the same quarter of the prior year. Operating income as a percentage of revenues increased to 12.6% for the three months ended March 31, 1992 compared to 8.5% (before restructuring charges) for the comparable prior period reflecting the allocation of overhead expenses over a larger revenue base, and the inclusion of operating losses in the three month period ended March 31, 1991 incurred by one of the Company's acquired operations which was subsequently disposed of. The full impact of this increase was partially offset by increased payroll costs.

The restructuring charges recorded in the comparable prior period related principally to the writedown of goodwill and the provision for losses associated with prior acquisitions.

Net interest expense increased 3.9% to $633,000 for the three months ended March 31, 1992 from approximately $609,000 in the comparable prior period.

Income from continuing operations before taxes was $1.7 million for the quarter compared to $351,000 (before restructuring charges of $17.6 million) for the same period in the prior year.

The Company's effective tax rate from continuing operations was 48.2% for the three months ended March 31, 1992 compared to an effective tax benefit of 5.0% for the comparable prior period. The Company's effective tax rate in each of these periods differed from the federal statutory rate due primarily to the amortization of goodwill and certain other expenses that were nondeductible for tax purposes.

Income from continuing operations after taxes was $867,000 for the quarter compared to $333,000 (before restructuring charges of $16.7 million, net of tax benefit) for the same period a year ago. For the quarter, income per common share from continuing operations, before preferred dividends and accretion and fiscal 1991 restructuring charges, was $.09 compared to $.05 for the same period a year ago. The anticipated early retirement of the Company's Series E Redeemable Preferred Stock with a portion of the proceeds from the Company's January 29, 1992 initial public offering resulted in a one-time non-cash reduction in net income available to common stockholders in the amount of $1.8 million ($.19 per share). This item led to a loss per common share from continuing operations of $.10 compared to $2.36 in the comparable prior period. In addition, the repayment of certain indebtedness with a portion of the proceeds of the initial public offering resulted in the acceleration of amortization of associated original issue discount and deferred financing costs, which is reflected in a one-time non-cash extraordinary reduction in net income in the amount of $1.9 million ($.20 per share), net of taxes. This extraordinary item increased the loss per common share to $.30 compared to $2.40 in the comparable prior period.

Six Months Ended March 31, 1992 and March 31, 1991

Revenues increased 66.1% to $36.0 million for the six month period ended March 31, 1992 from $21.6 million for the same period of the prior year. This increase was due primarily to the inclusion of revenues from three companies acquired during fiscal 1991.

Operating income for the six month period ended March 31, 1992 was $3.9 million compared to $1.1 million (before restructuring charges of $17.6 million) for the same period of the prior year. Operating income as a percentage of revenues increased to 10.8% compared to 5.2% (before restructuring charges of $17.6 million) for the comparable prior period reflecting the allocation of overhead expenses over a larger revenue base and the inclusion of operating losses in the six month period ended March 31, 1991 incurred by one of the Company's acquired operations which was subsequently discontinued in fiscal 1991. The full impact of this increase was partially offset by increased payroll costs.

The restructuring charges recorded in the comparable prior period related principally to the writedown of goodwill and the provision for losses associated with prior acquisitions.

Net interest expense increased 43.5% to $1.9 million for the six month period ended March 31, 1992 from approximately $1.3 million in the comparable prior period primarily reflecting additional borrowings to finance acquisitions made during the latter part of fiscal 1991.

Income from continuing operations before taxes was $2.0 million for the six month period ended March 31, 1992 compared to a loss of $167,000 (before restructuring charges of $17.6 million) for the same period in the prior year.

The Company's effective tax rate from continuing operations was 48.2% for the six months ended March 31, 1992 compared to an effective tax benefit of 5.0% for the comparable prior period. The Company's effective tax rate in each of these periods differed from the federal statutory rate due primarily to the amortization of goodwill and certain other expenses that were nondeductible for tax purposes.

Income from continuing operations after taxes was $1.1 million for the six month period ended March 31, 1992 compared to a loss of $159,000 (before restructuring charges of $16.7 million, net of tax benefit) for the same period a year ago. For the six month period, income per common share from continuing operations, before preferred dividends and accretion and fiscal 1991 restructuring charges, was $.12 compared to a loss of $.02 for the same period a year ago. The anticipated early retirement of the Company's Series E Redeemable Preferred Stock with a portion of the proceeds from the Company's January 29, 1992 initial public offering resulted in a one-time non-cash reduction in net income available to common stockholders in the amount of $1.8 million ($.21 per share). This item led to a loss per common share from continuing operations of $.12 compared to $2.49 in the comparable prior period. In addition,

the repayment of certain indebtedness with a portion of the proceeds of the initial public offering resulted in the acceleration of amortization of associated original issue discount and deferred financing costs, which is reflected in a one-time non-cash extraordinary reduction in net income in the amount of $1.9 million ($.22 per share), net of taxes. This extraordinary item increased the loss per common share to $.34 compared to $2.57 in the comparable prior period.

Liquidity and Capital Resources

In February 1992, the Company received $56.6 million in proceeds from its initial public offering of 4,200,000 shares of Common Stock. Approximately $38.3 million of such proceeds were used to repay amounts outstanding under the Company's bank credit facility, to retire subordinated debt, to redeem Series E Redeemable Preferred Stock, to repurchase common stock pursuant to a stock option agreement and to pay a note due in connection with the spin-off of a subsidiary (see Note 5 to the Company unaudited financial statements). The Company used an additional $2.0 million of such proceeds to repay certain acquisition indebtedness. For additional discussion of the impact of these and other proposed uses of proceeds on the capitalization of the Company, see sections entitled "Use of Proceeds" and "Capitalization" in the Company's Prospectus dated January 29, 1992 and filed as part of the Company's Registration Statement on Form S-1 (No. 33-44451) filed on January 29, 1992.

For the six months ended March 31, 1992 the Company invested approximately $5.5 million to further enhance its proprietary computer software and to finance the increase in the Company's unbilled receivable balance. Such amounts were financed with additional borrowings under the Company's bank credit facility and the proceeds from the initial public offering.

The Company presently has a credit facility with a commercial bank which was increased to $22 million effective September 28, 1991. Amounts available under this facility are calculated based upon a formula equal to twice the Company's earnings before depreciation, interest, taxes and amortization for the latest twelve month period. This credit facility bears interest at LIBOR plus 2.75% or the prime rate plus 1.75% at the option of the Company and is secured by substantially all of the Company's assets. At March 31, 1992, the entire balance of the line is available.

PART II - OTHER INFORMATION

Item 5. Other Information

The registrant has entered into a definitive agreement with Thomas H. McConnell, M.D., a director and executive officer of the registrant, concerning an option to purchase 170,000 shares of the registrant's Common Stock at an exercise price of $10.50 per share. The option was disclosed, subject to the execution of definitive agreements, in the registrant's final prospectus dated January 29, 1992, included in the registrant's Registration Statement on Form S-1 (No. 33-44451) filed on January 29, 1992.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

10.1	Non-Qualified Stock Option Agreement, dated as of December 31, 1991, by and between AdvaCare, Inc. and Thomas H. McConnell, M.D.
11	Statement re computation of per share earnings

(b) Reports on Form 8-K.

No reports on Form 8-K were filed by the Company during the quarter ended March 31, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ADVACARE, INC.

DATE: May 14, 1992

By: _____

Bruce M. Mergenthal
Vice President, Treasurer and
Chief Financial Officer
(Duly authorized officer and
principal financial officer)

EXHIBIT INDEX

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ADVACARE, INC.

NON-QUALIFIED STOCK OPTION AGREEMENT

AGREEMENT made as of the 31st day of December, 1991, by and between AdvaCare, Inc. (the "Corporation") and Thomas H. McConnell (the "Grantee").

W I T N E S S E T H

WHEREAS, the Board of Directors of the Corporation (the "Board") has determined that it is in the best interest of the Corporation to enter into a consulting agreement with the Grantee; and

WHEREAS, the Corporation and the Grantee have entered into a consulting agreement as of the date hereof; and

WHEREAS, by resolution adopted on December 16, 1991, the Board approved the grant, in connection with such consulting agreement, of non-qualified stock options to the Grantee to purchase common stock of the Corporation, par value $.01 per share (the "Stock"), in accordance with the terms and provisions of this agreement;

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Grant of Option.

Subject to the terms and conditions hereinafter set forth, the Corporation hereby grants to the Grantee, as of the date first written above (the "Date of Grant"), an option to purchase up to 170,000 shares of Stock at a price of $10.50 per share (the "Option"). The ceiling stated in the previous sentence on the maximum number of shares which may be acquired under the Option is referred to herein as the "Number of Option Shares". The Grantee shall have the right hereunder to purchase from the Corporation, on and after the following dates, in cumulative fashion, the following number of shares:

(a) on and after April 30, 1992 (the "Initial Vesting Date"), up to one-half of the Number of Option Shares;

(b) on and after the first anniversary of the Initial Vesting Date, up to an additional one-quarter of the Number of Option Shares; and

(c) on and after the second anniversary of the Initial Vesting Date, the remaining portion of the Number of Option Shares.

The Grantee may exercise the Option in whole at any time or in part from time to time, subject to the restrictions set forth herein.

Notwithstanding the foregoing, the Option shall automatically be accelerated and shall be exercisable in full upon the occurrence of any "change in control" of the Corporation, and in such event the Option shall remain exercisable in full for the period following any such "change in control" until the Option has been fully exercised or expires pursuant to its terms. "Change in control" means a change in the ownership of the Stock of the Corporation where (i) a corporation, person or group acting in concert as described in Section 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), holds or acquires beneficial ownership of a number of shares of Stock which constitutes more than 30 percent of the Corporation's outstanding shares of Stock within the meaning of Rule 13d-3 promulgated under the Exchange Act and (ii) the Board of Directors of the Corporation after having been advised that such ownership level has been reached, does not, within 90 days thereafter, adopt a resolution specifically approving the acquisition of that level of shares of Stock by such person.

2. Type of Option.

The Option granted hereunder is intended by the parties hereto to be, and shall be treated as, a "non-qualified" stock option.

3. Termination of Option.

The Option shall have a term of seven (7) years from the Date of Grant and shall terminate at the expiration of such period, unless terminated at an earlier date pursuant to the further provisions of this Agreement.

Upon the termination of the consulting agreement for any reason (except as a result of retirement, disability or death), any unexercised Option shall be exercisable by the Grantee at any time within thirty (30) days after the date of such termination but only to the extent such option was exercisable on the date of such termination. Upon the termination of the consulting agreement as a result of the Grantee's retirement, disability or death, the Option may be exercised during the three month period following the date of such retirement, disability or death for a number of shares

which shall not exceed the number of shares for which the Option was exercisable on such date.

Subject to the foregoing, in the event of the Grantee's death, the Option may be exercised by the Grantee's legal representative, but only to the extent that the Option was exercisable as of the date of death.

4. Forfeiture of the Option.

Notwithstanding any other provisions set forth herein, if the Grantee shall (i) commit any act of malfeasance or wrongdoing affecting the Corporation or any Subsidiary, (ii) breach any representation, warranty or covenant contained in the consulting agreement or (iii) otherwise engage in conduct that would warrant the Grantee's discharge for cause (excluding general dissatisfaction with the performance of the Grantee's duties, but including any act of disloyalty or any conduct clearly tending to bring discredit upon the Corporation or any Subsidiary), the unexercised portion of the Option shall terminate immediately and be void.

5. Exercise Procedures.

The Grantee may exercise the Option with respect to all or any part of the whole number of shares then exercisable by giving the Secretary of the Corporation written notice of intent to exercise. Such notice shall specify the number of shares as to which the Option is to be exercised and the exercise date, which date shall be at least five (5) days after the giving of such notice unless the Corporation and the Grantee shall have agreed upon an earlier time. Full payment (in U.S. dollars) by the Grantee of the Option price for the shares purchased shall be made on or before the exercise date specified in such notice in cash, or, in the event that the Board shall, in its sole discretion, determine that the Option shall be exercisable by tendering shares of Stock of the Corporation, the Option price may be paid in whole or in part through the surrender of shares of Stock at the fair market value of such shares determined as of the last trading date prior to the date on which the Option is exercised.

On the exercise date specified in the Grantee's notice or as soon thereafter as is practicable, the Corporation shall, without transfer or issue tax or other incidental expense to the Grantee, cause to be delivered to the Grantee, a certificate or certificates for such shares (out of theretofore unissued shares or reacquired shares, as the Corporation may elect) upon payment for the shares. The obligation of the Corporation to deliver Stock shall,

however, be subject to the condition that if at any time the Board shall determine in its discretion that the listing, registration or qualification of the Option, or the shares subject to the Option, upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, such Option or the issue or purchase of shares thereunder, the Option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board.

If the Grantee fails to pay for any of the shares specified in such notice or fails to accept delivery thereof, the Grantee's right to purchase such shares may be terminated by the Corporation. The date specified in the Grantee's notice as the date of exercise shall be deemed the date of exercise of the Option, provided that payment in full shall have been received by such date.

6. Grantee's Securities Law Representations.

The Grantee hereby represents and warrants to the Corporation that: (1) the Grantee will comply with all applicable conditions of the Securities Act of 1933, as amended (the "1933 Act"), and the rules and regulations promulgated thereunder, in effecting any sale of shares of Stock subject to the Option and (2) the Grantee shall not dispose of any such shares in any manner that is, or as may involve the Corporation in, a violation of any federal or state securities law, including the 1933 Act.

If the Board shall deem it appropriate by reason of any securities law, it may require that the Grantee, upon exercise in whole or in part of this Option, represent to the Corporation in writing that the purchase of the Stock is for investment only and not with a view towards distribution. The Board may require that the Stock certificates be inscribed with a legend restricting disposition of any shares of such Stock in any manner which may result in a violation of the 1933 Act.

7. Certain Corporate Changes.

In the event of a reorganization, recapitalization, change of shares, stock split, spin-off, stock dividend, reclassification, subdivision or combination of shares, merger, consolidation, rights offering, or any other change in the corporate structure or shares of the Corporation, the Board shall make such adjustment as it deems appropriate in

the number and kind of shares subject to the Option, or in the Option price.

8. No Rights of Shareholder.

Neither the Grantee nor any personal representative of the Grantee shall be, or have, any of the rights and privileges of a shareholder of the Corporation with respect to any shares subject to the Option, in whole or in part, except to the extent that certificates for such shares shall have been issued upon the exercise of the Option as provided for herein.

9. Non-Transferability of Option.

During the Grantee's lifetime, the Option shall be exercisable only by the Grantee or by a guardian or legal representative of the Grantee and neither the Option shall be transferable except by will or by the laws of descent and distribution, nor shall the Option be subject to attachment, execution or other similar process. In the event of any attempt by the Grantee to alienate, assign, pledge, hypothecate or otherwise dispose of this Option, except as provided for herein, or in the event of the levy of any attachment, execution or similar process upon the rights or interest hereby conferred, the Corporation may terminate the Option by notice to the Grantee and the Option and all rights hereunder shall thereupon become null and void.

10. Employment Not Affected.

Neither the granting of the Option nor its exercise shall be construed as granting to the Grantee any right with respect to continuance of employment by or Affiliation with the Corporation or any Subsidiary. Except as may otherwise be limited by a written employment or other agreement between the Corporation or any Subsidiary and the Grantee, the right of the Corporation or any Subsidiary to terminate at will the Grantee's employment or Affiliation with it at any time (whether by dismissal, discharge, retirement or otherwise) is specifically reserved by the Corporation or any Subsidiary.

11. Amendment or Cancellation of the Option.

The Option may be amended or canceled by the Board at any time (i) if the Board determines, in its sole discretion, that amendment or cancellation is necessary or advisable in light of any change in the Internal Revenue Code of 1986, as amended, or in the regulations promulgated thereunder, or in any federal or state securities law or other law or regulation, which change occurs after the Date of Grant and by its terms retroactively applies to the Option

or (ii) other than in the circumstances described in clause (i), with the Grantee's consent.

12. Notice.

Any notice to the Corporation provided for in this instrument shall be addressed to the Corporation in care of its Secretary, and any notice to the Grantee shall be addressed to the Grantee at the current address shown on the records of the Corporation. Any notice shall be deemed to be duly given if and when properly addressed and posted by registered or certified mail, postage prepaid.

13. Governing Law.

The validity, construction, interpretation and effect of this instrument shall exclusively be governed by, and determined in accordance with, the laws of the Commonwealth of Pennsylvania, except to the extent preempted by federal law, which shall to that extent govern.

IN WITNESS WHEREOF, the Corporation has caused its duly authorized officers to execute and attest this Non-Qualified Stock Option Agreement, and to apply the corporate seal hereto, and the Grantee has placed his signature hereon, effective as of the Date of Grant.

[CORPORATE SEAL]

Attest:

Secretary

ADVACARE, INC.

By:

Title:

Thomas H. McConnell

ADVACARE, INC.
Calculation of Income (loss) Per Share

Exhibit 11
(page 1 of 2)

	Three Months Ended March 31,			
	1991		1992	
	Primary	Fully Diluted	Primary	Fully Diluted
Shares:				
Weighted Average common shares outstanding	6,915,836	6,915,836	9,687,226	9,687,226
Add:				
Common share equivalents including stock options and stock warrants .(2)	43,417	43,417	19,798	19,798
Common shares converted from subordinated debentures	-	- (1)	-	- (1)
Adjusted weighted average common shares outstanding	6,959,253	6,959,253	9,707,024	9,707,024
Income (loss) from continuing operations..	$(16,394,959)	$(16,394,959)	$ 867,060	$ 867,060
Adjustments for:				
Accretion/Accrual of Series E Dividends	(58,313)	(58,313)	(1,844,193)	(1,844,193)
Interest on Subordinated Convertible Debt, net of income taxes	-	- (1)	-	- (1)
Adjusted Income (Loss) from continuing operations	$(16,453,272)	$(16,453,272)	$(977,133)	$(977,133)
Income (loss) from discontinued operations..	$(278,706)	$(278,706)	-	-
Net Income (loss) before extraordinary item.....	$(16,731,978)	$(16,731,978)	$(977,133)	$(977,133)
Extraordinary item.....			$ 1,913,266	$ 1,913,266
Net income (loss).....	$(16,731,978)	$(16,731,978)	$(2,890,399)	$(2,890,399)
Net Income (loss) per share:				
Income (loss) per share from:				
Continuing operations ...	$(2.36)	$(2.36)	(.10)	(.10)
Discontinued operations..	$(. 04)	$(.04)	-	-
Extraordinary item.....			(.20)	(.20)
Net Income (loss) per share..	$(2.40)	$(2.40)	$(.30)	$(.30)

(1) Item excluded because its inclusion in calculation would be anti-dilutive.
(2) Represents options granted in September, 1991 which are considered cheap stock for the purposes of this calculation.

ADVACARE, INC.
Calculation of Income (loss) Per Share

	Six Months Ended March 31,			
	1991		1992	
	Primary	Fully Diluted	Primary	Fully Diluted
Shares:				
Weighted Average common shares outstanding	6,760,618	6,760,618	8,592,353	8,592,353
Add:				
Common share equivalents including stock options and stock warrants .(2)	43,417	43,417	25,737	25,737
Common shares converted from subordinated debentures	-	- (1)	-	- (1)
Adjusted weighted average common shares outstanding	6,804,035	6,804,035	8,618,090	8,618,090
Income (loss) from continuing operations..	$(16,887,123)	$(16,887,123)	$1,060,072	$1,060,072
Adjustments for:				
Accretion/Accrual of Series E Dividends	(58,313)	(58,313)	(2,059,587)	(2,059,587)
Interest on Subordinated Convertible Debt, net of income taxes	-	- (1)	-	- (1)
Adjusted Income (Loss) from continuing operations	$(16,945,436)	$(16,945,436)	$(999,515)	$(999,515)
Income (loss) from discontinued operations..	$(510,598)	$(510,598)	-	-
Net Income (loss) before extraordinary item.....	$(17,456,034)	$(17,456,034)	$(999,515)	$(999,515)
Extraordinary item.....			$ 1,913,266	$ 1,913,266
Net income (loss).....	$(17,456,034)	$(17,456,034)	$(2,912,781)	$(2,912,781)
Net Income (loss) per share:				
Income (loss) per share from:				
Continuing operations ...	$(2.49)	$(2.49)	(.12)	(.12)
Discontinued operations..	$(. 08)	$(.08)	-	-
Extraordinary item.....			(.22)	(.22)
Net Income (loss) per share..	$(2.57)	$(2.57)	$(.34)	$(.34)

(1) Item excluded because its inclusion in calculation would be anti-dilutive.
(2) Represents options granted in September, 1991 which are considered cheap stock for the purposes of this calculation.